Wilhelm Zeller
Chairman of the Executive Board

Dear shareholders,
Ladies and Gentlemen,

In the year just-ended the global financial system was shaken to its core with a severity that could not have been foreseen. Doubts about its stability triggered a collapse in equity prices around the world. Your company's balance sheet was also not left unscathed by all this turmoil. I therefore have no hesitation in describing 2008 as a lost year.

Having presented a record profit for 2007, Hannover Re is now reporting a loss for the first time in its history. This is indeed painful. As a large investor with an asset volume of some EUR 20 billion, we were unfortunately unable to escape the effects of the crisis on financial markets: despite our prudent and diversified investment strategy, the third quarter, in particular, compelled us to take significant write-downs – first and foremost on equity holdings. The 2008 stock market crash – the German Dax index alone, as you know, shed around 40 percent of its value – took a corresponding toll on our investment income. As a further factor, write-downs taken on equities are not tax-deductible in Germany, with the result that the financial market crisis had a doubly negative impact, as it were, on our figures. This obscured what was, in fact, the gratifying development recorded by your company in its core business, with only very minimal losses.

Looking at things from a rather different perspective, however, I would also like to highlight another aspect for you, our valued shareholders. If we leave aside the strains that had to be absorbed on the investment side, the crisis on financial markets will have a number of thoroughly positive consequences for our business: the loss of capital incurred by primary insurers is leading to a greater need for reinsurance, prompting prices on reinsurance markets to begin rising again! In the case of the United States, alone, it is anticipated that the insurance industry has lost around USD 80 billion in capital.

Your company is well equipped to make the most of these opportunities. For in spite of its negative result Hannover Re has no solvency issues. Our financial resources are strong and solid. This was reinforced by the rating agency Standard & Poor's, which confirmed our very good rating of "AA-" with a stable outlook following the profit warning that we issued in October. Similarly, the rating agency A.M. Best – which is of particular importance for the US market – confirmed our "A" rating with a positive outlook. We thus continue to be a preferred partner for our clients. For a reinsurer, a top rating is a prerequisite for being offered and awarded the full spectrum of business to underwrite, while at the same time it is also the key to being able to select those treaties that promise the strongest profitability.

In view of our stable financial standing, our business prospects for 2009 are therefore exceptionally bright.

Firstly, however, I would like to return to the year under review: I am satisfied with the technical development of our *non-life reinsurance* business group, even though the burden of major claims and catastrophe losses – principally due to the severe hurricane "Ike" – was somewhat higher than our expectations. Although prices in the year under review were notable for softening tendencies in some major markets, conditions were very largely acceptable. All in all, the prices that we obtained in 2008 were commensurate with the risks.

We remained true to our maxim of "profit before growth" in the year under review; in areas where we did not consider rates to be adequate, such as US casualty business, we reduced our involvement – while at the same time tapping into new market and product niches. In Brazil, the largest insurance market on the South American continent, we established a representative office following the abolition of that country's reinsurance monopoly. As an "admitted reinsurer", we thus enjoy an optimal platform for participating in this up-and-coming market.

As you, our valued shareholders, are aware, your company has long made a name for itself with the innovative transfer of (re)insurance risks to the capital market – both in non-life and life/health reinsurance. In the year under review we went one step further and are now enabling our clients to access the capital market by appropriately packaging and structuring risks that do not lend themselves to such transactions on a stand-alone basis. We successfully completed the first project of this type in June 2008 through "Globe Re". As far as our own risk management is concerned, we again transferred catastrophe risks to the capital market in the year under review so as to better protect our equity base against exceptional major losses.

In *life and health reinsurance*, too, we were able to place a portfolio on the international capital markets in 2008. By way of this transaction – designated "L7" – we continued to diversify our risk and secured for our company greater financial flexibility with an eye to the further expansion of our life and health portfolio.

I am similarly satisfied with the development of our life and health reinsurance business: premium growth was by no means as vigorous as in previous years, reflecting the restraining effects of exchange rate movements – especially in the pound sterling and US dollar. Nor was the result entirely convincing in comparison with the outstanding previous year, which had been influenced by a number of special effects. Nevertheless, what is important here is that we clearly strengthened our international market position in the year under review. In this context we have our sights set firmly on the Asian growth markets. We have been a locally licensed reinsurer in China since May 2008 and were able to acquire several new accounts through our branch in Shanghai. In Korea, too, Asia's largest life reinsurance market, we optimised our business opportunities by opening a new branch office. Last but not least, we have taken the first steps towards tapping into the Indian market by entering into a multi-year exclusive cooperation agreement with the leading local reinsurer. In a parallel move we opened a representative office in Mumbai to support our client relationships in life and facultative non-life business.

As I reported at the outset, our *investment income* in the year under review was overshadowed by the upheavals on international capital markets. We were able to sidestep the collapse on equity markets only with limited success. Particularly in the second half of the year, substantially lower share prices necessitated significant write-downs – although losses on fixed-income securities remained within manageable bounds. This was due not least to the broad diversification and high quality of the portfolio. We closed the year under review with a marginally positive return on investment.

Having stood its ground superbly in the first half of the year, the *Hannover Re share* then fell sharply in value – especially at the peak of the financial market crisis in September. In October, too, after massive liquidity problems came to light at a German bank, all financials – hence including the Hannover Re share – suffered extremely heavily, even though our share was able to make good some ground by year-end.

The next point that I would like to discuss is, understandably, a particularly disappointing one for you, our valued shareholders: the *dividend*. Given the negative result in the year under review, the Executive Board and Supervisory Board will propose to the Annual General Meeting that no dividend should be paid. Why is this? It has been pointed out to me on several occasions that in view of our retained earnings we would be in a position to make a distribution. That is true. Such a step would, however, reduce our capital base and hence restrict our opportunities to write profitable business in an increasingly attractive market. For your company it has always proven worthwhile to grow when rates are rising. In order to expand in this way we need capital that we can put to profitable use. With this in mind, therefore, I hope that you will endorse our dividend proposal.

Let us now look to the future. What can you expect from the current financial year? Our goals are ambitious, and we are seeking to generate a return on equity of more than 15% in 2009. The situation on international reinsurance markets is very favourable; the soft market has come to an end earlier than expected. This was clearly reflected in the treaty renewals as at 1 January 2009: in certain segments price increases sometimes extending into double-digit percentages were obtained, including for example in US catastrophe business but also more strikingly in credit and surety reinsurance. Our domestic market, especially in the area of non-proportional motor business, remains attractive. For our total portfolio we expect growth in premium income – and very healthy profitability – in the original currencies.

The business environment in life and health reinsurance is similarly favourable: here, too, the financial market crisis will raise awareness among the urban middle classes of the need for private provision, hence generating significant growth stimuli worldwide. What is more, with the acquisition of a US individual life reinsurance portfolio we have taken a major step towards accomplishment of our global objectives in life and health reinsurance. This acquisition will not only boost our premium volume to a level in excess of USD 1 billion, it will also enhance the diversification of our earnings streams. Following this transaction, life reinsurance business – which is notable for its greater stability – will account for a considerably larger share of the total portfolio going forward.

On behalf of all my colleagues on the Executive Board I would like to thank you, our valued shareholders, for your trust. Rest assured: we shall do everything in our power to equip Hannover Re to handle the opportunities and risks that lie ahead. Our goal, as always, is to consistently improve the value of your company. With this in mind I look forward to the challenges of 2009.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board